

Message Text

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ACTION EA-09

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R 260302Z APR 76

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 3190

INFO AMCONSUL HONG KONG

AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE SECTION 1 OF 2 KUALA LUMPUR 2362

E.O. 11652: N/A

TAGS: EINV MY

SUBJ: CHASE MANHATTAN BANK HAS DIFFICULTIES IN MALAYSIA

1. SUMMARY. IN CASE THAT ESSENTIALLY REPRESENTS POOR JUDGMENT ON BOTH SIDES, GOM HAS REQUESTED AND CHASE MANHATTAN BANK HAS AGREED TO PULL OUT EXPATRIATE MANAGER OF CHASE'S KUALA LUMPUR BRANCH. CRISIS AROSE BECAUSE OF CHASE DECISION LAST FALL TO FIRE SENIOR MALAY OFFICER FOR INSUBORDINATION. WHILE CHASE TOUCHED BASE WITH WORKING LEVELS CENTRAL BANK, DECISION NOT DISCUSSED WITH EITHER GOVERNOR OR DEPUTY GOVERNOR OF CENTRAL BANK UNTIL AFTER THE FACT. DISMISSED EMPLOYEE FILED FORMAL COMPLAINT WHICH NOW RESTS WITH MINISTER OF LABOR AND MANPOWER WHO WILL PROBABLY DECIDE TO SEND IT TO LABOR COURT IF DISPUTE NOT RESOLVED BY MUTUAL AGREEMENT. EMPLOYEE HAS ALSO WRITTEN SERIES OF LETTERS AND HAS ENLISTED SUPPORT OF PRIME MINISTER'S PRESS SECRETARY TO PRESSURE GOM TO REMOVE CHASE MANAGER. THIS HAS BEEN SUCCESSFUL AND GOM MALAYSIANIZATION COMMITTEE HAS WRITTEN LETTER TO CHASE

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CHAIRMAN ASKING THAT THIS BE DONE. GOVERNOR OF CENTRAL BANK

HAS REACHED CURIOUS DECISION THAT DESPITE FACT THAT THERE IS NO SUBSTANCE TO CHARGES AGAINST HIM, CHASE MANAGER MUST LEAVE FOR INEPT HANDLING OF MATTER. CHASE HAS AGREED AND HAS MADE COUNTEROFFER TO DISMISSED EMPLOYEE THAT UNLIKELY TO BE ACCEPTED. SITUATION HAS BEEN POORLY HANDLED BY BOTH SIDES BUT THIS DOES NOT MEAN GOM HAS CHANGED ITS POLICY TOWARDS MORE LIBERAL TREATMENT OF FOREIGN INVESTORS. IT DOES INDICATE, HOWEVER, THAT OLD POLITICS, ESPECIALLY REGARDING TREATMENT OF MALAYS, ALIVE AND WELL UNDER RIGHT CIRCUMSTANCES. END SUMMARY.

2. DESPITE GENERAL IMPROVEMENT IN INVESTMENT CLIMATE SINCE PRIME MINISTER HUSSEIN BIN ONN CAME TO POWER, FOREIGN FIRMS CAN STILL RUN INTO SUBSTANTIAL DIFFUCLTIES WITH GOM AGENCIES, ESPECIALLY IF BUMIPUTRA (ETHNIC MALAY) CONSIDERATIONS INVOLVED. THIS AMPLY DEMONSTRATED BY RECENT PROBLEMS ENCOUNTERED BY LAWRENCE BURR, MANAGER OF CHASE MANHATTAN BANK'S KUALA LUMPUR OFFICE, FOLLOWING HIS DECISION TO FIRE SENIOR BUMIPUTRA OFFICER FOR INSUBORDINATION. MALAY OFFICER INVOLVED IS IDRUS BIN TULIS WHO HAS BEEN WITH BANK FOR A NUMBER OF YEARS AND WHO, ACCORDING TO BURR, HAS HAD LONG HISTORY OF TRYING TO MANIPULATE HIS BUMIPUTRA CREDENTIALS TO FURTHER HIS CAREER. BURR, SHORTLY AFTER TAKING OVER BRANCH LAST AUGUST, DECIDED TO ATTEMPT TO WORK WITH IDRUS, DESPITE HIS REPUTATION AS TROUBLEMAKER. HE AGREED TO MONITOR IDRUS' PROGRESS AND TO OBTAIN MORE RESPONSIBLE POSITION AND PROMOTION FOR HIM IF POSSIBLE. SITUATION EXPLODED LAST NOVEMBER WHEN IDRUS REFUSED TO OBEY BURR'S ORDERS TO ASSIST CHASE WITH CRISIS SITUATION UNLESS HE WAS PROMOTED IMMEDIATELY. BURR GAVE HIM SEVERAL DAYS TO RECONSIDER HIS DECISION AND, WHEN IDRUS WOULD STILL NOT COMPLY WITH HIS ORDERS AND INDEED THREATENED BURR AND CHASE WITH POLITICAL DIFFICULTIES, BURR DISMISSED HIM.

3. AT THAT TIME, BURR MADE TACTICAL ERROR THAT HAS HAUNTED HIM EVER SINCE. BECAUSE OF EARLIER CRITICISM OF CHASE BY BANK NEGARA (CENTRAL BANK) GOVERNOR, TAN SRI ISMAIL BIN MOHAMED ALI, TO EFFECT THAT CHASE BROUGHT TOO MANY SMALL PERSONNEL MATTERS TO GOVERNOR'S ATTENTION, BURR ONLY NOTIFIED WORKING LEVEL BANK NEGARA OFFICIALS OF DECISION. BY TIME GOVERNOR LIMITED OFFICIAL USE

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AND DEPUTY GOVERNOR, DR. ARSHAD, HAD BEEN NOTIFIED OF PROBLEM, BURR HAD ALREADY FIRED IDRUS. THIS APPARENTLY IRRITATED BOTH GOVERNOR AND DEPUTY GOVERNOR AND MADE THEM LESS INCLINED THAN THEY MIGHT OTHERWISE HAVE BEEN TO ASSIST CHASE IN RESOLVING PROBLEM.

4. BURR MET WITH LEE SAN CHOON, MINISTER OF LABOR, WHO MUST DECIDE ON FORMAL COMPLAINT LODGED BY IDRUS AND HIS

ATTORNEY THAT CHASE ACTED IMPROPERLY IN DISMISSING HIM. LEE HAS THREE OPTIONS OPEN TO HIM: UPHOLD IDRUS; RULE IN CHASE'S FAVOR; OR SEND CASE TO INDUSTRIAL COURT. BURR TOLD AMBASSADOR DURING MEETING ON MARCH 24 THAT CHASE'S ATTORNEY HAD ADVISED THEM TO GO TO COURT AS CASE WAS GOOD AND BANK EXPECTED TO WIN. INDUSTRIAL COURT HAS GOOD REPUTATION FOR INDEPENDENCE AND IMPARTIALITY. BURR ALSO SAID THAT LEE HAD ASKED BURR IF CHASE MIGHT BE WILLING TO COMPROMISE ON ITS SEVERENCE PAY OFFER TO IDRUS OF M\$25,000. IDRUS HAD REJECTED THIS AND IS DEMANDING M\$125,000 IN SEVERENCE PAY. LEE STATED THAT PERHAPS PARTIES MIGHT MEET HALF WAY (I.E., AT M\$75,000) AND THAT THIS WOULD RESOLVE DISPUTE. BURR REJECTED THIS POSSIBILITY CITING BANK PROCEDURES AND DAMAGING PRECEDENT THIS WOULD SET FOR ANY FUTURE DISPUTES WITH CHASE EMPLOYEES. LEE INDICATED AT THAT TIME THAT HE WOULD PROBABLY SEND CASE TO INDUSTRIAL COURT.

5. NEXT DEVELOPMENT WAS FOR BURR TO BE CALLED BEFORE INTER-DEPARTMENTAL MALAYSIANIZATION COMMITTEE TO EXPLAIN HIS ACTIONS. THIS CLEARLY RESULT OF SERIES OF SLANDEROUS LETTERS IDRUS WROTE TO COMMITTEE AND TO INFLUENCE WAHAB MAJID, PRIME MINISTER'S PRESS SECRETARY AND FRIEND OF IDRUS WHO HAS BEEN ACTIVE IN SUPPORTING IDRUS. THIS SUPPORT TOOK FORM OF ATTEMPTING TO INFLUENCE LABOR MINISTRY DECISION AND, THAT FAILING, PRESSURING COMMITTEE TO TAKE UP CASE. BURR SHARPLY ATTACKED BY SEVERAL MEMBERS OF COMMITTEE WHICH HAS POWER TO RECOMMEND THAT EXPATRIATES' WORK PERMITS AND VISAS BE CANCELLED. MUCH OF THE CRITICISM DIRECTED TOWARDS CHARGES THAT BURR RACIALLY BIASED (COMMITTEE "EVIDENCE" SIMPLE FACT HE WORKED IN CHASE BRANCH IN SOUTH AFRICA FOR TWO YEARS) AND MISTREATED MALAYSIAN STAFF, ESPECIALLY BUMIPUTRAS. NONE OF THESE CHARGES WERE EVER SUBSTANTIATED DURING WHAT WAS ESSENTIALLY STAR CHAMBER PROCEEDING.

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R 260302Z APR 76
FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC 3191
INFO AMCONSUL HONG KONG
AMEMBASSY SINGAPORE

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6. NEXT DEVELOPMENT CAME IN LATE MARCH WHEN CHASE MANHATTAN CHAIRMAN DAVID ROCKEFELLER RECEIVED LETTER FROM CHAIRMAN OF MALAYSIANIZATION COMMITTEE ASKING CHASE TO WITHDRAW BURR FROM MALAYSIA. AT ROUGHLY SAME TIME, IDRUS SENT LETTER TO VICE PRESIDENT ROCKEFELLER DURING HIS VISIT TO KUALA LUMPUR ALLEGING MISTREATMENT BY BURR AND ASKING THE VP TO USE HIS INFLUENCE TO HAVE BURR REMOVED. AS RESULT OF LETTER TO CHASE CHAIRMAN, CHASE'S REGIONAL VP FROM HONG KONG, JOHN LINKER, AND THE AREA VP FROM SINGAPORE, JOHN TAYLOR, FLEW INTO K.L. ON APRIL 1 TO MEET FIRST WITH AMBASSADOR UNDERHILL AND THEN WITH VARIOUS GOM OFFICIALS. AMBASSADOR ADVISED THEM THAT IF THEY HAD CONFIDENCE IN THEIR CASE THEY SHOULD ALLOW IT TO GO TO IMPARTIAL INDUSTRIAL COURT WHERE CHASE COULD BE VINDICATED. CHASE REPRESENTATIVES SEEMED TO AGREE WITH THIS POSITION AND DEPARTED TO MEET WITH GOM OFFICIALS.

7. HOWEVER, SHORTLY BEFORE MEETING WITH BANK NEGARD GOVERNOR, LINKER UNILATERALLY, AND OVER BURR'S STRONG OBJECTIONS, DECIDED TO MAKE NEW COUNTEROFFER TO IDRUS. IDEA WAS TO OFFER TO REINSTATE IDRUS, TRANSFER HIM TO HONG KONG AND ACCEPT HIS RESIGNATION THERE
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AFTER 1 MONTH. IDRUS WOULD BE GIVEN NORMAL SEPARATION PAY, NOT EXCESSIVE AMOUNT HE NOW CLAIMING. LINKER FELT THAT THIS WOULD ALLOW IDRUS TO SAVE FACE. BURR STRONGLY OPPOSED TO THIS STEP BECAUSE OF IMPACT ON CHASE'S MALAYSIAN STAFF BUT HE WAS OVERRULED.

8. GROUP THEN HAD DISASTROUS MEETING WITH TAN SRI ISMAIL, BANK NEGARA GOVERNOR. ISMAIL, WHO HAS REPUTATION AS MORALLY UPRIGHT BUT AUTOCRATIC AND SOMEWHAT EMOTIONAL FIGURE, STARTED OFF BY STATING THAT HE DID NOT AGREE WITH ALLEGATIONS MADE AGAINST BURR. NOTWITHSTANDING THAT, HOWEVER, HE STATED THAT THE MERE EXISTENCE OF THE PROBLEM INDICATED TO HIM THAT CHASE GUILTY OF POOR MANAGEMENT AND, AS A RESULT, CHASE SHOULD REMOVE BURR AS MANAGER AS SOON AS PRESENT DIFFICULTIES RESOLVED. DESPITE COUNTERARGUMENTS PRESENTED BY CHASE GROUP, ISMAIL ADAMANT THAT BURR BE REMOVED. AT NO TIME DID ISMAIL OFFER TO HELP CHASE WITH IDRUS PROBLEM. THERE IS SOME SUGGESTION THAT GOVERNOR GOT WIND OF UNCONFIRMED RUMOR TO EFFECT THAT BURR CLAIMING TO BE UNTOUCHABLE

BECAUSE OF LARGE LOANS TO GOM AND THAT THIS TICKED OFF GOVERNOR.

9. FOLLOWING THIS MEETING, GROUP MET BRIEFLY WITH DEPUTY GOVERNOR DATUK ARSHAD BIN AYUB TO DISCUSS MATTER. AT THAT TIME, LINKER LAID OUT HIS PROPOSAL FOR COMPROMISE SETTLEMENT. ARSHAD PROMISED TO TALK TO IDRUS TO SEE IF HE WOULD BE WILLING TO ACCEPT COMPROMISE. AS OF THIS DATE, BURR HAS NO EVIDENCE THAT ARSHAD HAS DONE SO.

10. CHASE REPS THEN MET WITH LEE SAN CHOON WHO TOLD THEM THAT HE WOULD DELAY MAKING ANY DECISION UNTIL IDRUS HAD REPLIED TO CHASE COUNTEROFFER. LEE STATED THAT HE DOUBTED IDRUS WOULD AGREE. LINKER THEN HAD PRIVATE MEETING WITH DIRECTOR GENERAL OF IMMIGRATION TO DISCUSS LETTER TO DAVID ROCKEFELLER. DIRECTOR GENERAL TOLD HIM THAT CHASE COULD EITHER WITHDRAW BURR, ASK THAT CASE BE REOPENED BY MALAYSIANIZATION COMMITTEE OR APPEAL DECISION TO CABINET-LEVEL COMMITTEE MADE UP OF MINISTERS OF LABOR AND MANPOWER, HOME AFFAIRS AND TRADE AND INDUSTRY.

11. CHASE GROUP THEN CLOSETED WITH ATTORNEY AND REACHED TWO DECISIONS: FIRST, AND OVER STRONG OBJECTIONS OF LIMITED OFFICIAL USE

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ATTORNEY, COMPROMISE OFFER WOULD BE MADE TO IDRUS THROUGH HIS ATTORNEY. THIS WAS DONE. SECOND, THAT AFTER PROBLEM RESOLVED, BURR WOULD BE TRANSFERRED FROM MALAYSIA. LATTER DECISION BASED ON CONSIDERATION THAT IRRESPECTIVE OF MERITS OF CHASE POSITION, BANK'S FUTURE BUSINESS DEPENDENT ON GOODWILL OF GOM IN GENERAL AND CENTRAL BANK GOVERNOR IN PARTICULAR. CHASE BELIEVES THAT THEY CAN OBTAIN SUBSTANTIAL GOM BUSINESS IN NEXT FEW YEARS AND DOES NOT WISH TO JEOPARDIZE IT BY DISREGARDING GOVERNOR'S WISHES.

12. SITUATION REMAINS AS DESCRIBED ABOVE. CHASE HAS AGREED TO WITHDRAW BURR BUT HAS NO ASSURANCE THAT IDRUS PROBLEM WILL BE RESOLVED. IDRUS HAS NOT RESPONDED TO CHASE'S OFFER AND WORD OF BURR'S WITHDRAWAL HAS LEAKED INTO MARKETPLACE, REPORTEDLY FROM IMMIGRATION DEPARTMENT WHICH VIEWS THIS AS GREAT VICTORY.

13. COMMENT. THIS CASE CLEARLY INDICATES THAT DESPITE MAJOR IMPROVEMENTS SINCE HUSSEIN BIN ONN BECAME PRIME MINISTER, THE MILLENIUM HAS NOT YET ARRIVED FOR FOREIGN INVESTORS IN MALAYSIA. IT SHOWS THAT FIRMS MUST, OF COURSE, CONTINUE TO BE AWARE OF MALAY TILTINGS ON PART OF GOM OFFICIALS IN ANY DISPUTE. CERTAIN FACTORS SHOULD, HOWEVER, BE KEPT IN MIND WHILE CONSIDERING RELATIVE SIGNI-

FICANCE OF THIS CASE IN TERMS OF INVESTMENT CLIMATE. FIRST, SITUATION HAS BEEN CHURNING AROUND FOR LAST FIVE MONTHS AND BEGAN WELL BEFORE GOM TOOK STEPS TO IMPROVE INVESTMENT CLIMATE. IT DEVELOPED MOMENTUM OF ITS OWN THAT WOULD HAVE BEEN DIFFICULT, BUT NOT IMPOSSIBLE TO HAVE TURNED AROUND. SECOND, CHASE MADE SOME MAJOR ERRORS IN HANDLING CASE. CLEARLY, SITUATION SHOULD HAVE BEEN DISCUSSED AT HIGH LEVELS OF CENTRAL BANK BEFORE IDRUS FIRED. IN ADDITION, MOST SERIOUS CHASE ERROR APPEARS TO BE LACK OF WILLINGNESS TO PLAY ALL CARDS AT THEIR DISPOSAL. THIS MOST APPARENT IN CASE OF REGIONAL OFFICERS WHO APPEAR TO HAVE DECIDED TO SETTLE AT ANY PRICE SO AS TO PROTECT CHASE'S LONG-TERM INTERESTS. THIS WOULD HAVE BEEN AT LEAST UNDERSTANDABLE IF DECISION TO REMOVE BURR AND TO OFFER QUESTIONABLE COMPROMISE TO IDRUS WERE SUCCESSFUL IN RESOLVING PROBLEM. IN FACT, THEY HAVE DONE NOTHING OF THE KIND. CHASE NOW LIMITED OFFICIAL USE

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HAS WORST OF ALL POSSIBLE WORLDS--THEY HAVE AGREED TO WITHDRAW MANAGER BUT HAVE NO CORRESPONDING COMMITMENT BY GOM TO HELP RESOLVE CRISIS. AS WORD LEAKS OUT, AND IT ALREADY HAS, CHASE WILL LOOK INCREASINGLY FOOLISH TO BOTH ITS COMPETITORS AND TO ITS EMPLOYEES. NOR WILL ACT OF CAVING QUICKLY IN TO GOM DEMANDS SERVE BANK'S INTERESTS NEXT TIME DISPUTE ARISES. REGARDING GOM, OUTCOME WILL NO DOUBT TEMPORARILY RAISE SOME QUESTIONING IN MARKETPLACE AS TO GOVERNMENT'S REAL INTENTIONS AS TO INVESTMENT CLIMATE, BUT THIS EXPECTED FADE QUICKLY. EMBASSY DOES NOT BELIEVE THAT THIS CASE INDICATES ANY SHIFT IN GOM POSITION. RATHER WE SEE IT AS AN EXAMPLE OF HOW POOR JUDGMENT ON BOTH

SIDES CAN DAMAGE THE REPUTATION OF BOTH GOM AND PRIVATE FIRM. WE WILL CONTINUE TO MONITOR SITUATION CLOSELY AND WILL REPORT AS EVENTS WARRANT. END COMMENT.
UNDERHILL

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